

# AUDIT REPORT

## OSAGE COUNTY RURAL WATER DISTRICT #1 OSAGE COUNTY, OKLAHOMA

JUNE 30, 2012

### KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [REK@KERSHAWCPA.COM](mailto:REK@KERSHAWCPA.COM)

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
JUNE 30, 2012

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OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
JUNE 30, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
DR. HARRIET GLEATON	CHAIRMAN	AUGUST 2012
SCOTT HANSLIK	VICE-CHAIRMAN	AUGUST 2012
MIKE WEDEL	SECRETARY	AUGUST 2014
ROBERT REES	TREASURER	AUGUST 2014
WILLIAM F. SNELL	MEMBER-AT-LARGE	AUGUST 2013

Unaudited

# KERSHAW CPA & ASSOCIATES, PC

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MUSKOGEE, OKLAHOMA 74401  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Osage County Rural Water District #1  
Osage County, Oklahoma

We have audited the accompanying financial statements of the Osage County Rural Water District #1, as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Osage County Rural Water District #1's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Osage County Rural Water District #1, Osage County, Oklahoma, as of June 30, 2012, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2012, on our consideration of the Osage County Rural Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

Osage County Rural Water District #1 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not

# KERSHAW CPA & ASSOCIATES, PC

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been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

*Kershaw CPA & Associates, P.C.*

Kershaw, CPA & Associates, PC

November 26, 2012

## EXHIBIT A

OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

<u>ASSETS</u>	<u>2012</u>	<u>Memo Only 2011</u>
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 197,677	\$ 185,818
Reserve Certificate	5,000	5,000
Interest receivable	634	1,064
Accounts receivable	22,365	19,485
Accrued revenue	2,657	3,547
Prepaid Insurance	1,962	1,944
Total Current Assets	<u>230,295</u>	<u>216,857</u>
 <u>Capital Assets:</u>		
Water Distribution System	846,929	836,669
Less: Accumulated Depreciation	<u>(537,459)</u>	<u>(515,300)</u>
Total Fixed Assets	<u>309,470</u>	<u>321,369</u>
 <u>Other Assets:</u>		
Restricted Investments	<u>51,676</u>	<u>51,185</u>
Total Other Assets	<u>51,676</u>	<u>51,185</u>
 TOTAL ASSETS	 <u>\$ 591,440</u>	 <u>\$ 589,411</u>
 <u>LIABILITIES &amp; NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 17,505	\$ 18,977
Accrued expenses	6,614	6,474
Current Portion of Long-Term Debt	-	-
Total Current Liabilities	<u>24,119</u>	<u>25,452</u>
 <u>Long-Term Liabilities:</u>		
Notes Payable	-	-
Less: Current Portion of Long-Term Debt	-	-
Total Long-Term Debt	<u>-</u>	<u>-</u>
 TOTAL LIABILITIES	 <u>24,119</u>	 <u>25,452</u>
 <u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	309,470	321,369
Restricted for debt service	-	-
Unrestricted	<u>257,851</u>	<u>242,590</u>
 TOTAL NET ASSETS	 <u>567,321</u>	 <u>563,959</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 591,440</u>	 <u>\$ 589,411</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

## EXHIBIT B

OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2012

	2012	Memo Only 2011
<b><u>Operating Revenues:</u></b>		
Water sales	\$ 208,006	\$ 201,434
Penalties	3,482	3,967
Other services	8,917	3,623
<b>Total Operating Revenues</b>	<b>220,405</b>	<b>209,024</b>
<b><u>Operating Expenses:</u></b>		
Water purchases	114,388	105,466
Management fees	57,600	55,800
Maintenance and repair	12,957	18,089
Depreciation Expense	22,160	21,787
Utilities	7,436	7,579
Insurance	1,394	1,441
Professional fees	600	1,100
Pull and transfer fees	955	1,050
Bank charges	436	428
Membership fees	558	556
Regulatory fees	692	576
Uncollectible accounts	-	200
Miscellaneous	259	218
<b>Total Operating Expenses</b>	<b>219,434</b>	<b>214,288</b>
<b>Net Operating Income (Loss)</b>	<b>971</b>	<b>(5,264)</b>
<b><u>Non-operating Income (Expense):</u></b>		
Interest Income	1,891	2,316
Interest Expense	-	-
Benefit Units	500	2,500
<b>Total Non-operating Income (Expense)</b>	<b>2,391</b>	<b>4,816</b>
<b>Net Income (Loss)</b>	<b>3,362</b>	<b>(448)</b>
<b>Capital Contributions</b>	<b>-</b>	<b>-</b>
<b>Total Net Assets, Beginning of Year</b>	<b>563,959</b>	<b>564,408</b>
<b>Total Net Assets, Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>Total Net Assets, End of Year</b>	<b>\$ 567,321</b>	<b>\$ 563,959</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

## EXHIBIT C

OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2012

	2012	Memo Only 2011
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 218,415	\$ 208,805
Payments to Suppliers for Goods & Services	(198,625)	(187,794)
Net Cash Provided (Used) by Operating Activities	<u>19,790</u>	<u>21,011</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(10,260)	(16,683)
Proceeds from Sale of Capital Assets	-	-
Issuance of benefit units	500	2,500
(Increase)Decrease Restricted Investment	(491)	(695)
Principal paid on long-term debt	-	-
Interest paid on Debt	-	-
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(10,252)</u>	<u>(14,878)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
Interest Income	2,321	2,380
Net Cash Provided (Used) by Investing Activities	<u>2,321</u>	<u>2,380</u>
Net Increase (Decrease) in Cash and Cash Equivalents	11,860	8,513
Cash & Cash Equivalents, Beginning of Year	185,818	177,305
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 197,677</u>	<u>\$ 185,818</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 971	\$ (5,264)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	22,160	21,787
(Increase)Decrease in Accounts Receivable	(2,880)	(12)
(Increase)Decrease in Accrued revenue	890	(207)
(Increase)Decrease in Prepaid Insurance	(18)	-
Increase(Decrease) in Accounts Payable	(1,472)	3,950
Increase(Decrease) in Accrued expenses	140	757
Net Cash Provided (Used) by Operating Activities	<u>\$ 19,790</u>	<u>\$ 21,011</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies employed by Osage County Rural Water District #1 (the District) are consistent with accounting principles generally accepted in the United States of America. Significant policies are described below.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. The statement established a new reporting model for governments that is substantially different from prior reporting standards. The District adopted the new reporting model June 30, 2004, which includes the following segments:

*Management's Discussion & Analysis* - provides introductory information on basic financial statements and an analytical overview of the District's financial activities. For the year ended June 30, 2012, management has not presented the Management's Discussion and Analysis as required by the Governmental Accounting Standards Board (GASB) and GASB has determined it necessary to supplement, although not required to be part of, the basic financial statements.

*Fund financial statements* - provide information about the District's proprietary fund. The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

A. Purpose:

The Osage county Rural Water District #1 is a State of Oklahoma chartered public nonprofit water district. Its purpose is to maintain and operate a water distribution system to serve the needs of owners and occupants of land within the Water District.

B. Basis of Accounting:

The financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recorded when the liability is incurred.

C. Income Taxes:

The Osage County Rural Water District #1 is exempt from federal income tax under section 501(c)(12) of the Internal Revenue Code. The District meets the requirements set forth by Revenue Procedure 95-48 to be qualified as an affiliate of a government unit. As such, the District is exempt from filing Form 990 Return of Organization Exempt From Income Tax.

OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

D. Estimates:

The preparation of financial statements in conformity with accounting principles generally in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Cash and Cash Equivalents:

Cash and cash equivalents include amounts in demand deposits, money market funds, and certificates of deposit with and original maturity of three months or less.

F. Property, Plant and Equipment:

Property and equipment, consisting of a water distribution system, are stated at cost and are depreciated over the estimated useful life of such assets. Depreciation is computed using the straight-line method.

G. Capitalization Policy:

Purchases of capital items in excess of \$350.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

The useful life will be categorized as follows:

1. 40 years - Meter sets and related equipment, road crossings, pipe in the ground that is not a repair or ordinary maintenance, and any new extensions.
2. 15 years - Pump stations, buildings, tank painting and other structures with an approximated life of fifteen years.
3. 7 years - Motors, pumps, panel boxes, and other related items with a useful life that approximated seven years.

H. Equity Classification:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

I. Revenues, Expenditures & Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

J. Benefit Units

Members purchase benefit units for the right to obtain services from the Water District. Fees paid for benefit units are considered donations to the Water District and are nonrefundable. Benefit units sold are reflected as non-operating income in the period the water services are established.

K. Memorandum Only

The “Memorandum Only” captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District’s internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District does not have any long-term debt agreements which would have budgetary or reserve requirements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At June 30, 2012, the District held deposits of approximately \$254,353 at financial institutions. The District’s cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of

OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2012, was as follows:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Water System	\$ 751,759	\$ 10,260	\$ -	\$ 762,020
System Equipment	23,651	-	-	23,651
Highway 123 Extension	61,258	-	-	61,258
Subtotal	836,668	10,260	-	846,929
Less: Accum. Depr.	(515,300)	(22,160)	-	(537,459)
Total Capital Assets (Net of Depreciation)	\$ 321,369	\$ (11,899)	\$ -	\$ 309,470

NOTE 5 - LONG-TERM DEBT

The District has no long-term debt.

OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2012, are as follows:

Long-Term Notes Payable

Year Ending June 30,	Principal	Interest	Total
2013	\$ -	\$ -	\$ -
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018-2022	-	-	-
Total	\$ -	\$ -	\$ -

NOTE 6 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

Restricted net assets are described in Note 2 above.

NOTE 7 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at June 30, 2012, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably

OSAGE COUNTY RURAL WATER DISTRICT #1  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

determined at this time, although it is believed the amount, if any, would not be material.

NOTE 8 - ECONOMIC DEPENDENCE

Osage County Rural Water District #1 is dependent upon the City of Bartlesville, Oklahoma, for the District's water supply. The City has supplied water to the District since 1966 under a contract, which is automatically renewed from year to year.

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Osage County Rural Water District #1  
Osage County, Oklahoma

We have audited the financial statements of the Osage County Rural Water District #1, as of June 30, 2012, and have issued our report thereon dated November 26, 2012. Also, the District has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. Except as discussed in the preceding sentences, we conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

### Internal Control Over Financial Reporting

Management of the Osage County Rural Water District #1 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Osage County Rural Water District #1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Osage County Rural Water District #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Osage County Rural Water District #1's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify

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any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Osage County Rural Water District #1's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors and management of the Osage County Rural Water District #1, Osage County, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

*Kershaw CPA & Associates, P.C.*  
Kershaw CPA & Associates, PC

November 26, 2012